

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
Children’s Hospital Program of 2008 (Proposition 3)

Staff Summary
Resolution No. CHP-3 2012-01
February 23, 2012

Applicant: Rady Children’s Hospital - San Diego #CHSD-03-03
3020 Children’s Way
San Diego, California 92123-4282
San Diego County

Project Site: Same as above

Amount Requested: \$19,628,877

Summary of Awards to Hospital	2004 Program	2008 Program
Prior Amount Awarded	\$74 million	\$24,905,748
Maximum Allowed for Hospital	\$74 million	\$98 million

Description of Applicant:

Rady Children’s Hospital-San Diego (RCHSD) is a nonprofit general acute care hospital with a current license from the California Department of Public Health. The Fiscal Year 2011 (year ending June 30) audited financial statements were submitted and are free of “going concern” language.¹

Project

RCHSD is seeking grant funds to reimburse hospital internal funds expended for construction of its Acute Care Pavilion (“Pavilion”), a new four-story pediatric tower which was opened in October 2010.

The Children’s Hospital Program previously awarded two grants related to the Pavilion project and disbursed the following amounts:

- \$62,686,319 million from Proposition 61: This grant, awarded by the Authority in 2007, is referred to herein as the “original Pavilion grant.” The grant was awarded for construction of the Pavilion and for unrelated purchases to replace aging patient care equipment in the existing towers.
- \$14,196,794 from Proposition 3: This grant, awarded in 2010, was used to purchase the new patient care equipment installed in the new Acute Care Pavilion.

¹ The absence of ‘going concern’ language tends to suggest the organization is in good operational health for that fiscal year. The Authority’s regulations define “Going Concern Qualification” in sections 7030(n) and 7051(n) for Proposition 61 and Proposition 3, respectively.

When RCHSD submitted its application for the Original Pavilion Grant, Proposition 3 (which was passed by voters in November 2008) was not yet on the ballot. The original financing plan for the Pavilion, therefore, did not include Proposition 3 funds in its sources and uses estimation.

At the time RCHSD applied for the original Pavilion grant, RCHSD's financing plan for the Pavilion included the intention to dedicate \$67,470,788 in philanthropic contributions from RCHSD's much larger philanthropic capital campaign goal of \$220 million. That campaign, which will be completed in December 2012, has raised over \$208 million in both restricted and unrestricted funds. According to RCHSD, of this capital amount raised, only \$5,221,391 was actually restricted by the donors to be used only toward construction of the Pavilion. To adapt to changes in the economy that affected RCHSD and because Proposition 3 funds are now available, the hospital's administration decided to use the majority of unrestricted philanthropic donations to offset the expense of charity care, uncompensated care, Medi-Cal payment shortfalls, county shortfalls, dental care, immunizations and other direct medical and clinical services shortfalls. RCHSD is now seeking Proposition 3 funding to reimburse hospital internal funds used for the costs of constructing the Pavilion that RCHSD had previously planned to cover with some of the unrestricted donations.

The Acute Care Pavilion is a 279,000 square-foot, four-story pediatric tower immediately adjacent to RCHSD's older towers. The Pavilion includes a surgical center, a hematology/oncology center, a neonatal intensive care unit (NICU), and general medical/surgical inpatient beds. The surgical center includes sixteen operating rooms, a 56-bed surgical recovery unit, a waiting area and some surgical administrative offices. The hematology/oncology center includes 38 hematology/oncology inpatient beds and the hematology/oncology outpatient clinic. The NICU consists of 32 neonatal intensive care unit (NICU) beds. The Pavilion also includes 84 additional medical/surgical beds.

Proposition 3 Evaluation Factors:

Based on the review of the application and other submitted materials, staff evaluated the RCHSD's project using the six factors identified in the Proposition 3 language.

Factor 1: The grant will contribute toward expansion or improvement of health care access by children eligible for governmental health insurance programs and indigent, underserved, and uninsured children:

The Pavilion added 154 licensed beds to RCHSD's preexisting 248 beds, substantially increasing access to inpatient pediatric specialty care in the region. According to RCHSD, the addition of 32 beds to the NICU has helped RCHSD meet soaring demand for services for frail newborns by increasing the number of NICU beds to 72. Fiscal Year (FY) 2011 included ten months of services in the new Pavilion, and in that year RCHSD had 118,523 patient days, up substantially from 70,895 in FY 2010. Without the expansion, many children would have had to be treated in out-of-area hospitals.

With more operating rooms, it is less likely that a child's surgery is delayed due to a lack of capacity. According to RCHSD, the completion of sixteen new large operating rooms not only increased surgical capacity, but also allowed the existing eight operating rooms to be used to increase access to less complex procedures. For example, part of the space was converted to a second catheterization lab to accommodate increased need.

Factor 2: The grant will contribute toward the improvement of child health care or pediatric patient outcomes:

RCHSD indicates that it integrated design features supporting improvements in health care and patient outcomes throughout the Pavilion. For example, the new operating rooms are much larger than the old ones because the most complex pediatric surgeries require operating rooms that accommodate more specialized equipment and more medical personnel. Also, the creation of a new Hematology/Oncology wing includes design features that provide additional infection protection for vulnerable immunosuppressed chemotherapy patients, improved patient care flow, and 38 private patient rooms with family amenities. These rooms also have advanced air-filtering equipment to protect vulnerable chemotherapy patients from infections. By way of another example, ten rooms are dedicated for the caring of patients in the pediatric bone marrow transplant program, the only pediatric program of its kind in the region.

Factor 3: The children's hospital provides uncompensated or undercompensated care to indigent or public pediatric patients:

RCHSD treats over 75% of the hospitalized children under age five whose families are in poverty in the San Diego region. Children are treated regardless of their ability to pay. Almost 53% of RCHSD's gross patient revenues are from Medi-Cal and California Children's Services (CCS)². At RCHSD, Medi-Cal eligibility counselors are available on site to assist the families and financial counselors help eligible families enroll in public health insurance programs.

In FY 2011, RCHSD provided approximately \$66 million in uncompensated and undercompensated medical care services, including \$59.4 million in Medi-Cal shortfall (up from \$40 million in 2009) and \$6.8 million in charity care (up from \$5.7 million in 2009).

In FY 2011, RCHSD received \$5.9 million in Disproportionate Share Funding from the state and federal governments because the hospital sees a disproportionate share of the underinsured and uninsured.³

Factor 4: The children's hospital provides services to vulnerable pediatric populations:

CCS patients are among the most vulnerable pediatric patients, and RCHSD cared for 7,972 children in the CCS program in FY 2011. RCHSD maintains CCS-approved clinics throughout San Diego County. RCHSD has the only Level-1 pediatric trauma center⁴ in the region, and its emergency room and urgent care visits exceeded 100,000 in FY 2010. The hospital maintains pediatric sub-specialist physicians on the hospital medical staff. In its 2011-12 edition of "Best Children's Hospitals," U.S. News & World Report ranked RCHSD's cardiology and heart surgery programs and its cancer program among the nation's best.

² California Children's Services is a state program managing care and covering treatment costs for children and youth with certain diseases, physical limitations or chronic health problems.

³ Disproportionate Share Hospital (DSH) adjustment payments provide financial help to those hospitals that serve a significantly disproportionate number of low-income patients; eligible hospitals are referred to as DSH hospitals. States receive an annual DSH allotment to cover the costs of DSH hospitals that provide care to low-income patients that are not paid by other payers, such as Medicare, Medicaid, the Children's Health Insurance Program (CHIP) or other health insurance.

⁴ Trauma centers vary in their specific capabilities and are identified by "Level" designation: Level-1 is the highest. Higher levels of trauma centers will have highly sophisticated medical diagnostic equipment and trauma surgeons available, including those trained in such specialties as neurosurgery and orthopedic surgery.

Factor 5: The children’s hospital promotes pediatric teaching or research programs:

As the only teaching and training hospital for pediatric medicine in the San Diego area, RCHSD serves as the training site for over 310 pediatric family practice and specialty residents from five San Diego based residency programs: UCSD Medical School, Scripps (Chula Vista and Mercy), Naval Medical Center San Diego; and Naval Hospital Camp Pendleton Naval Medical Center. The hospital also offers fellowships in approximately 21 pediatric sub-specialties.

In partnership with the University of California San Diego, RCHSD’s hospital and research center are participating in over 375 research studies, covering a wide range of specialty areas. Research occurs in all medical disciplines within RCHSD such as cardiology, orthopedics, dermatology, and infectious diseases, as well as within specialized research organizations such as the Laboratory for Research on the Neuroscience of Autism, the Child and Adolescent Services Research Center, and the Center for Child Health Outcomes.

Factor 6: Demonstration of project readiness and project feasibility:

Construction of the Acute Care Pavilion is complete, and the building is in use.

<u>Sources of Funds:</u>		<u>Actual Uses of Funds:</u> ⁵	
Current Grant Request	\$ 19,628,877	Construction	<u>\$220,000,000</u>
Proposition 61 Grant	62,686,319		
Bonds	132,463,413		
Restricted Donations	<u>5,221,391</u>		
Total	<u>\$ 220,000,000</u>	Total	<u>\$220,000,000</u>

Legal Review:

Although disclosures were made by the applicant, the information disclosed does not appear to detrimentally affect the financial viability or legal integrity of the applicant or the project.

Staff Recommendation:

Staff recommends the Authority approve a resolution for Rady Children’s Hospital – San Diego to provide a grant not to exceed \$19,628,877 (less issuance and administrative costs) subject to all requirements of the Children’s Hospital Program of 2008.

⁵ Patient care equipment installed in Pavilion is not included in this version of sources and uses, but was included in the sources and uses totals in the original Pavilion grant application. In that application, sources and uses were projected to total \$262,704,157 including \$36,200,000 in equipment and \$33,637,845 in contingencies.

RESOLUTION NO. CHP-3 2012-01

**A RESOLUTION OF THE CALIFORNIA HEALTH
FACILITIES FINANCING AUTHORITY APPROVING
EXECUTION AND DELIVERY OF GRANT FUNDING
UNDER THE CHILDREN'S HOSPITAL BOND ACT OF 2008
TO RADY CHILDREN'S HOSPITAL – SAN DIEGO**

WHEREAS, The California Health Facilities Financing Authority (the “Authority”), a public instrumentality of the State of California, is authorized by the Children’s Hospital Bond Act of 2008 (Pt. 6 (commencing with Section 1179.50), Div. 1, Health and Safety Code; hereafter the “Act”) and implementing regulations to award grants from the proceeds of general obligation bonds in an amount not to exceed \$98,000,000 less the bond issuance and administrative costs to Rady Children’s Hospital – San Diego to finance eligible projects; and

WHEREAS, Authority staff reviewed this application against the eligibility requirements of the Act and implementing regulations and, pursuant to the implementing regulations, approved an initial allocation of an amount not to exceed \$19,628,877 less the bond issuance and administrative costs to the applicant for the eligible projects described in the application; and

WHEREAS, Authority staff recommends approval of the final allocation by the Authority in the form of a grant; and

NOW THEREFORE BE IT RESOLVED by the California Health Facilities Financing Authority, as follows:

Section 1. The Authority hereby approves a grant of \$19,628,877 less the bond issuance and administrative costs to the Rady Children’s Hospital – San Diego (“Grantee”) to complete eligible projects as described in the Children’s Hospital Program Application and Exhibit A to this Resolution (which is hereby incorporated by reference) within a project period that ends on February 28, 2013.

Section 2. The Executive Director is hereby authorized for and on behalf of the Authority, to approve any minor, non-material changes in the Project described in the application submitted to the Authority and extend the project period completion date identified in Section 1 as authorized under the Act and implementing regulations. Nothing in this resolution shall be construed to require the Authority to provide any additional funding, even if more grants are approved than there is available funding. Any notice to an applicant approved hereunder shall indicate that the Authority shall not be liable to the applicant in any manner whatsoever should such funding not be completed for any reason whatsoever.

Section 3. The Executive Director is hereby authorized and directed, for and on behalf of the Authority, to draw money from the Children's Hospital Program Fund not to exceed those amounts approved by the Authority for the Grantee. The Executive Director is further authorized and directed, for and on behalf of the Authority, to execute and deliver to the Grantee any and all documents necessary to complete the transfer of funds that are consistent with the implementing regulations.

Section 4. The Executive Director of the Authority is hereby authorized and directed to do any and all things and to execute and deliver any and all documents that have heretofore been approved as to form by the Authority which the Executive Director deems necessary or advisable in order to effectuate the purposes of this Resolution and the transactions contemplated hereby.

Section 5. This resolution expires February 28, 2013.

Date Approved: _____

EXHIBIT A

PROJECT DESCRIPTION

The proceeds of the grant funds will be used by Rady Children's Hospital – San Diego to reimburse hospital internal funds expended for construction of its Acute Care Pavilion ("Pavilion"), a new four-story pediatric tower which was opened in October 2010 on the hospital campus located at 3020 Children's Way, San Diego, CA 92123.